

UKRAINE

**Capital:**

Kyiv

Polity:

Presidential-parliamentary democracy

Population:

48,396,470

GDP per capita

(PPP): \$4,200

NGO SUSTAINABILITY: 4.0

The Third Sector in Ukraine has matured over the past year in certain fundamental regards. The legal environment was improved through the introduction of changes that make it easier for NGOs to

NGO SUSTAINABILITY

2002	4.0
2001	4.3
2000	4.4
1999	4.1
1998	4.2

earn income. Organizational capacity and advocacy skills have improved as evidenced by more regular cooperation among NGOs and growing efforts to employ strategic planning. In addition, intermediate support organizations (ISOs) are providing more advanced training, further reducing the need for foreign trainers. The two areas where the Third Sector remains weakest relate to financial viability and public image. Deep dependence on donor funding persists and broad public understanding of and support for NGOs remains weak.

Because NGOs may register either at the national or local levels, the precise number of registered organizations is unknown. Experts estimate, however, that approximately 30,000 groups are registered, of which 4,000 are active. Ukrainian NGOs work on a variety of issues from social services and public policy to culture and politics, representing every demographic group. As is the case elsewhere as well, NGOs in the capital and oblast centers are the most developed, while those in smaller towns or rural areas are less so. Unique to Ukraine are certain geographical differences. Many experts generalize that civil society is more vibrant in major urban areas as one moves west, even though western oblasts have weaker economies than the resource-rich east. This is generally attributed to socio-historical factors such as Western Ukraine's experience under different political systems as borders shifted. Among the influences on this part of Ukraine were early Polish experi-

ments with democracy, the long-time support for an independent, democratic

Ukraine, and a long tradition of private property.

LEGAL ENVIRONMENT: 4.5

The legal environment in Ukraine remains a challenge to NGO sustainability, but this year witnessed some significant improvements.

LEGAL ENVIRONMENT
2002 4.5
2001 5.0
2000 5.0
1999 5.0
1998 4.6

First, registration has become a largely perfunctory process and time delays have decreased, generally taking several weeks and at most only 2 months in

Kyiv and certain oblast centers. In past years, the process could take six months or more. Delays or refusals are commonly based on applications being incomplete, but such issues are usually easily rectified. There were no known instances of forced dissolution of an NGO over the past year.

Second, tax regulations have been improved. In summer 2002, the tax authorities issued a new reporting form that more clearly allows NGOs to report non-taxable earnings. Previously, procedures for capitalizing on small legal loop holes for NGOs were ill-defined and difficult to use. Unfortunately, few NGOs are aware of the fact that they can earn income under specific conditions or of the changes in tax forms. Thus, this opportunity remains largely untapped. As in the past, grants are not taxed in Ukraine except on salaries paid to staff or consultants from these funds.

Third, legislation now allows NGOs registered as charitable organizations to create endowments and businesses can receive deductions up to 4% of their profits for their contributions to such organizations. While this may benefit mature social service NGOs who are generally registered as charitable groups, many NGOs, such as advocacy groups and associations, must register as public organizations;

therefore, this benefit is not extended to them. Another change is that individuals receiving aid (e.g. money to pay for medical care) from a registered charity do not need to report this assistance as income and thus do not pay income tax on it.

While the legal framework has seen some significant improvements, one noteworthy drawback occurred when the Cabinet of Ministers passed resolution 153 regulating foreign assistance in Ukraine. This resolution may well increase government oversight over donor programs and thus the Ukrainian NGOs that receive grants from donors. Implementation of this resolution is just beginning, so the actual impact remains unknown. Donors are pressing the GOU to repeal it.

Due in large part to donor support, local legal capacity in Third Sector issues is growing, but remains concentrated in Kyiv and oblast centers. Many legal aid clinics exist throughout the country providing services, often pro bono, that NGOs may utilize. However, the need for assistance remains great since many NGOs operate on a shoe-string budget and involve little if any full time professional staff.

Leading NGOs realize that they must collaborate to improve the legal environment, as was discussed at two "Civic Forums" this year involving over 400 NGOs. Yet, a strong coalition working on these issues has yet to emerge.

Overall, NGOs remain free to operate within the law. Visits by the tax authorities or other government inspection bodies to NGOs are not uncommon, although the issue is not unique to the Third Sector; the business community faces similar problems. Harassment increased in the lead up

to the March 2002 elections for those groups most actively involved in promoting fair elections. Yet, generally, the scope of this problem has not changed much from

previous years – which is of note since this was an election year during which many had expected the situation to seriously deteriorate.

ORGANIZATIONAL CAPACITY: 3.5

Problems common to NGOs in other struggling democracies also exist in

ORGANIZATIONAL CAPACITY

2002	3.5
2001	4.0
2000	4.0
1999	3.5
1998	3.7

Ukraine. The majority of NGOs in Ukraine are small local organizations, often isolated. Competition for funding and insufficient

cooperation with other groups persist. Elite groups often do not have wide outreach and few organizations in Ukraine have detailed plans for recruiting members and/or volunteers. Strong constituency building and membership services are frequently lacking. Furthermore, many NGOs continue to operate without a division of responsibilities between the board of directors and staff members. Highly centralized and personalized leadership structures remain the norm.

Despite these limitations, past investments bore fruit this year as experts witnessed

improvements in organizational capacity. The need for strategic planning, membership/ constituency outreach and stronger internal management has slowly been digested, resulting in increased demand for such services, which previously were largely donor driven. A growing number of NGOs have paid professional staff and are paying payroll taxes for those employees. Increasingly, job descriptions, timelines and other tools are being used to better manage operations. In addition, more NGOs are seeking to better use their boards and, when appropriate, are inviting government officials to serve as board members. As previously reported, most “active” NGOs have basic office equipment and increasingly access the Internet, be it through their office, Internet cafés or other means. Much progress remains, but a healthy share of the NGO community seems to be turning a corner – realizing the need for professionalism and slowly applying tools to be so.

FINANCIAL VIABILITY: 5.0

As in past years, dependence on international donors remains extremely high for most NGOs.

FINANCIAL VIABILITY

2002	5.0
2001	5.0
2000	5.0
1999	5.0
1998	4.6

While the overall economic situation in Ukraine has been improving over the past two years, the vast majority of the population has little money to contribute

to charity work, professional associations, advocacy groups, or community projects.

Nevertheless, increasingly, NGOs are providing cost-share – usually in-kind contributions – in proposals, although often at the behest of donors. Leading NGOs have been successful in diversifying their funding base – even think tanks that often struggle for funding. They may, however, remain predominantly reliant on one or two foreign donor sources. A few groups working on charitable causes have achieved greater success in raising domestic funding; social sector organizations are more likely to be

successful in raising funds in a way that will not negatively impact their activities. The same cannot be said for public policy or civic action groups for whom acceptance of local funds in many instances means a loss of political independence or jeopardizes the public perception of political independence.

The number of NGOs earning income through social enterprises remains small. As noted earlier, there is not a broad understanding within the Third Sector on how to run social enterprises within the laws and regulations; most NGO activists believe that this cannot be done. All active NGOs are under pressure to demonstrate accountability and careful record keeping - not just by foreign donors, but also by the tax authorities. Yet, independent financial audits and publication of annual reports

that include financial statements are extremely rare.

While the financial viability of NGOs has not dramatically changed in the last year, it is noteworthy that groups are asking for more training in this area and more developed groups are moving from reactively responding to donors' tenders or anxiously searching for any kind of funding even if the activities were not within one's scope. Rather, these more savvy NGOs are promoting their services and seeking to define their agenda for donors, as opposed to letting their agenda be defined by donors. In addition, there is a slow growth in the number of government bodies that allow for NGO participation in government tenders. The practice is not yet widespread, but the trend is moving in a "healthy" direction.

ADVOCACY: 3.5

Here too Ukraine has seen some slight progress. Lines of communication among NGOs and between civil society and gov-

ADVOCACY

2002	3.5
2001	4.0
2000	4.0
1999	5.0
1998	4.4

ernment have improved. Even during the hotly contested 2002 parliamentary elections, the Central Election Commission felt impelled to organize an advisory board

that involved a number of leading NGOs with substantive experience in this area and brought meaningful issues to the board for discussion and review. On the local level, most NGOs are at least somewhat effective at communicating with government and initiating policy change. Local government even occasionally turns to local well-known, effective NGOs for policy advice. Organizations are pro-actively sharing information and referring people to other groups when they cannot help - helping to strengthen the initiatives of fellow NGOs.

While such mutual support is now frequently witnessed, coalition skills sector-wide still require improvement. It can still be said that NGOs are often more successful at conducting awareness campaigns to raise the visibility of their issues than at national-level advocacy focusing not only on legal and regulatory reforms but also the implementation of laws and regulations. While leading groups may increasingly seek to work in coalitions, the difficult task with effectively managing such initiatives is still being mastered - i.e. managing personality issues, multi-organizational funding, enforcing responsibilities. For less developed organizations, the need to build coalitions is not universally understood.

Nevertheless, there have been some advocacy campaigns and coalitions on such issues as elections, freedom of speech, and Third Sector laws and regulations. There is a growing understanding among NGOs about the need to address the legal framework regulating NGO issues, as

evidenced by the fact that this matter was a central issue at the first and second “Civic Forum” which brought together over 400 NGOs from across the country. As mentioned, a group of about 10 NGOs have continued to lobby over the past year for legislative reform related to NGO issues. Beyond the impact of NGOs learning to effectively cooperate with one another through the various coalitions that emerged, results were seen in government decision making too. For instance, a

well-meaning but technically weak law on political advertising and another on election debates were blocked, in part due to vibrant civic initiatives. Leading think tanks continue to gain access to government officials at the national level and feed their research into the policy process. Some professional associations, such as those of taxpayers, libraries, and businesses, have also been successful in their advocacy efforts.

SERVICE PROVISION: 3.0

Ukraine’s Third Sector held its ground over the past year, maintaining previous accomplishments related to service provisions and making some micro-

SERVICE PROVISION	
2002	3.0
2001	3.0
2000	4.0
1999	2.5

improvements that may pave the way for more significant developments in future years. Numerous organizations provide services in different areas such as educa-

tion, democracy, environmental protection, legal consulting, training, empowerment, job training and health. These groups operate throughout Ukraine and target a wide range of demographic groups. Dependency on donor funding impacts what services are provided, but NGOs have been able to secure continued funding. Thus, Ukraine’s NGOs are meeting the needs of a broad spectrum of constituents, although funding limitations hamper NGOs’ ability to more completely respond to the depth of community needs.

The concepts of clientele and constituencies are somewhat better understood now, as evidenced by workshops and publications which reach out to government offi-

cials, subject experts, other NGOs and the public. However, groups could do more to consult with constituencies when designing strategic plans and activities. Although it is not yet a pervasive practice for NGOs, think tanks, academia, church groups and government to routinely reach out to one another, this does occur on occasion, for example, between think tanks and academia that may cooperate and then invite relevant NGOs and government officials to review their research.

Cost recovery remains problematic as discussed earlier and thus experience in charging for services remains limited. NGOs have successfully won contracts from local government to provide social services to the wider population and the number of localities allowing NGOs to bid on tenders is slowly growing. While there are national laws and regulations on procurement and grant making as well as by-laws in a few cities, the emerging practice of NGOs receiving government contracts or grants is not well publicized nor have lessons learned for government and the Third Sector been well documented and widely shared.

INFRASTRUCTURE: 3.5

Indigenous organizations have strengthened their efforts to support the Third Sector. Over the past year, ISOs have contin-

INFRASTRUCTURE

2002	3.5
2001	4.0
2000	4.0
1999	3.5

ued to provide high quality basic training and other services and several groups are now providing advanced training

on NGO development topics and sector-specific topics. Donors now rely largely on such groups rather than international trainers. In addition, the practice of NGOs paying for training is slowly emerging and even groups that cannot necessarily afford to pay may state their understanding of why fees need to be instituted. Internet access is growing as

well and some organizations are using the Internet to improve their activities. Access, however, is often through employers, Internet cafes or various types of resource centers, not necessarily within NGO offices. Unfortunately, much of this infrastructure requires continued donor funding. Local grant-making capacity is very limited. Indigenous foundations are rare; capacity that does exist is the result of a few organizations receiving awards from donors to implement re-granting programs.

There are many instances of NGOs working with one another as well as with government and the media, both formally and informally. More work remains to be done in this area, however, particularly given competition over funding.

PUBLIC IMAGE: 5.0

While Ukraine's Third Sector has made some important strides recently, public awareness and participation remains very

PUBLIC IMAGE

2002	5.0
2001	5.0
2000	5.0
1999	4.0
1998	3.9

low. The average Ukrainian may know of a local charity and commend its effort, but not understand the broader role of civic organizations, particularly in terms of representing

citizens' interests and engaging government. Government and business may have a positive perception of NGOs providing social services, but do little to help. Generally speaking, other types of NGOs (e.g. advocacy and public policy groups) are less positively viewed, although government officials and business representatives are starting to reach out to the Third Sector, more commonly at the local level. The practice is far from universal.

Organizations are strengthening their

media outreach. Some groups are cooperating with journalists or producing newsletters. NGOs do seem to receive more media coverage, particularly during the pre-election period. The tone of coverage varies but many times is positive. Nevertheless, media outlets are facing heavy political pressure and are not free to report NGO activities or any news as they see fit. NGOs themselves understand the need to communicate with reporters and the public and thus try to hold press conferences, but more sophisticated plans for public outreach and communications are wanting.

Self-regulation of the NGO sector is lacking, although a handful of NGOs recognize the need for transparency, a code of ethics, annual reports with budget information and other tools to strengthen Third Sector credibility. The greatest hurdle for these forward-leaning groups to overcome is that in Ukraine's politicized environment many NGOs fear transparency of operations and finances.